REPORT ON THE AUDITED FISCAL YEARS 1999 AND 1998 FINANCIAL STATEMENTS OF THE UNITED STATES MINT

OIG-00-062 MARCH 3, 2000

THE DEPARTMENT OF THE TREASURY

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Office of Inspector General

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United States Department of the Treasury

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 3, 2000

MEMORANDUM FOR PHILIP N. DIEHL, DIRECTOR
UNITED STATES MINT

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Report on the Audited Fiscal Years 1999 And 1998 Financial Statements of the United States Mint

I am pleased to transmit the attached report on the audited Fiscal Years 1999 and 1998 financial statements of the United States Mint (Mint). Urbach Kahn & Werlin PC, an independent public accountant (IPA), performed the audits and issued the following reports, which are included in the attachment:

- Independent Auditor's Report on the Financial Statements;
- Independent Auditor's Report on Internal Control; and
- Independent Auditor's Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on the financial statements for the fiscal years ended September 30, 1999 and 1998. However, the Independent Auditor's Report on Internal Control cited one reportable condition related to system improvements needed in the Consolidated Information System (COINS). The IPA identified operating and control deficiencies relating to the bullion ledger, the numismatics ordering system, and computer security that, if not resolved, may adversely impact the Mint's ability to produce accurate and timely financial data. This reportable condition is not considered to be a material weakness.

The Independent Auditor's Report on Compliance with Laws and Regulations contained no instances of noncompliance.

The IPA issued a management letter discussing matters that were identified during the audit which are not required to be included in the audit reports.

As in the prior year, my staff monitored the conduct of these audits and performed a quality control review of the IPA's working papers. The audits were performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and met the requirements of OMB Bulletin No.98-08, *Audit Requirements for Federal Financial Statements, as amended*.

Should you have any questions, please contact me on (202) 927-5400, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit (Financial Management) on (202) 927-5430.

Attachment

Founded in 1792, the U.S. Mint became a bureau of the Treasury Department in 1873 and today is the world's largest coin manufacturer, with operations in California, Colorado, Kentucky, Maryland, New York, Pennsylvania, and Washington, D.C. Our missions are to produce the nation's circulating coinage, to manufacture and market coin and medal products worldwide, and to safeguard the nation's bullion reserves at Fort Knox and elsewhere. These missions and our effectiveness in executing them make the U.S. Mint one of the few federal agencies that produces an operating profit.

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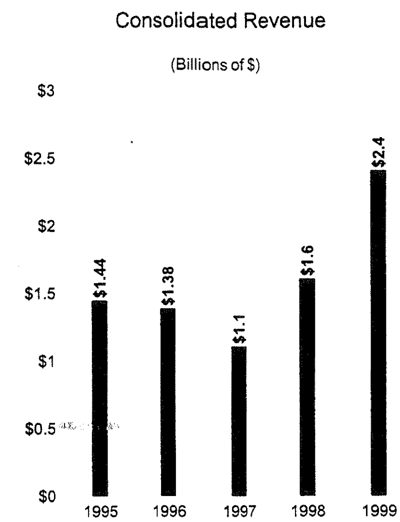
Visit us at

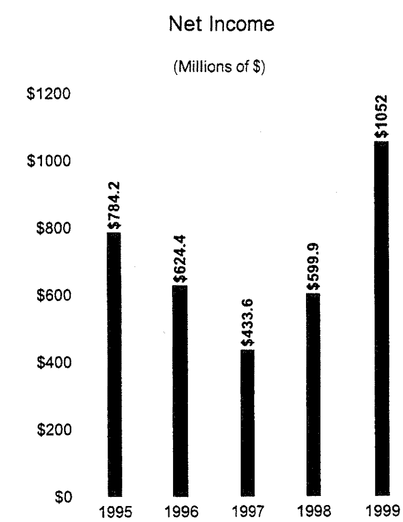
www.usmint.gov

To Our Colleagues and Customers:

Five years ago we set out to make the United States Mint more progressive and profitable by challenging every aspect of our operations — product selection, market strategy, customer service, information systems, capital investment, labor-management relations, and corporate structure to name a few. Throughout each of my annual reports to you over the years, you've seen our programs and progress unfold in dozens of ways, ranging from faster product delivery to more concerted capital investment. The cumulative outcome of our efforts has been to bring the American people a national Mint governed by a public sector sense of service and a private sector insistence on results. And for fiscal 1999 specifically, our efforts past and present produced the greatest financial, operating, and administrative performance in our history.

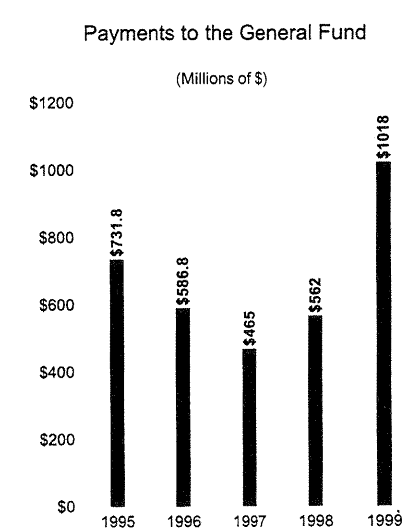


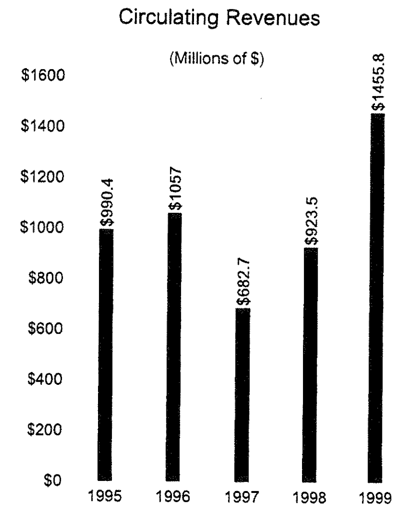
- Revenues soared to $2.4 billion, a 52 percent increase over 1998
- Consolidated net income leapt 75 percent to $1.05 billion
- Seigniorage earned from the production of circulating coinage reached $1.04 billion, 74 percent higher than 1998
- Profits earned from numismatic and bullion sales climbed to $38.8 million, a 69 percent increase over 1998
- We contributed $1.02 billion to the Treasury General Fund as taxpayers' return on their investment in the Mint, 81 percent above last year and our largest contribution in history



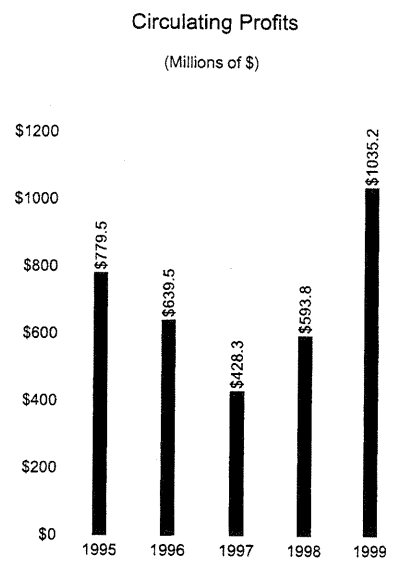
We have convincingly reversed the downturn in our financial performance. During the past five years, our revenues have grown at a 14 percent annual average rate, net income has risen an average eight percent annually, seigniorage has increased an average seven percent yearly, and deposits to the general fund have averaged nine percent yearly increases.

All this happened because we became an operationally integrated public sector enterprise. Today, our circulating coinage, numismatic, and protection businesses are linked by an integrated information system, guided by a mature strategic plan, and synergized by a shared vision of our future. The best example is our results from 1999's leading coin program, one anticipated by numismatists and ordinary Americans, the longest sequence of changes to coinage in U.S. history: 50 State Quarters™. Or as we've nicknamed it: Q50. In 1999 through 2008, we'll issue five new quarter-dollars per year honoring each state with a design chosen by its citizens. State quarters will appear in pockets and purses for decades as daily history lessons for all Americans, and numismatic versions of Q50 coins, sets, jewelry, and accessories will sell nationwide in retail stores, catalogs, and on the Web.





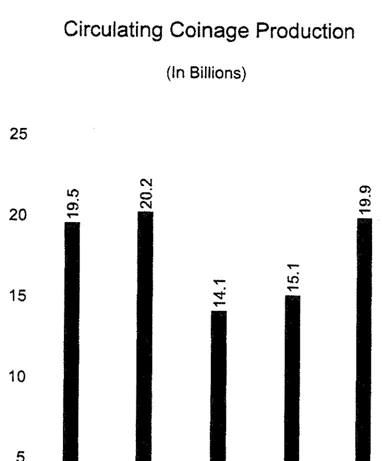
We knew Q50 would be the biggest event in U.S. coinage since the Mint's founding in 1792. We knew it would excite collectors worldwide. Research suggested consumer demand for quarters would increase by more than 1.5 billion coins per year and that Americans would keep one-third to half of all Q50 quarters we produced. We knew claims on production, distribution, administration, and marketing would be unprecedented. We knew Q50 presented the chance to attract customers and reinvigorate the hobby of coin collecting. And we knew prospects for circulating and numismatic profits on behalf of taxpayers would be extraordinary. This year's operating and financial results show just how extraordinary.



Circulating Business Unit

We are the world's largest coin manufacturer, and in 1999 the performance of our light manufacturing and bulk distribution operations also proved we're the best. Our Circulating Business Unit surpassed almost every previous record for total coin production, total production of high denomination coins (those larger than the penny), yearly revenues, and yearly seigniorage. It did so while operating 24 hours a day, seven days a week to meet the economy's requirements for coins and while preparing next year's state quarters, perfecting next year's new dollar coin, minting the first circulating Susan B. Anthony dollars since 1980, installing equipment to bring 1999 capacity for high denomination coins from six billion to nine billion, and purchasing equipment to bring nominal capacity for clad to almost 15 billion annually.

Circulating Business Unit revenues—payments from the Federal Reserve (FRB) for circulating coinage—rocketed to $1.5 billion, a 58 percent increase over 1998 and the largest in our history. This performance resulted from unprecedented demand for nickels and dimes and the resounding popularity of 50 State Quarters.™ Our market research indicated that 106 million people were actively collecting state quarters by September 1999 and that the number will rise to 160 million in 2000.



Denver and Philadelphia produced 19.95 billion circulating coins, second only to 1996 production, and shipped 20.4 billion coins to FRB banks, besting 1995's record of 19.1 billion. The degree to which the American people wanted Q50 quarters outstripped even our projections: in 1999 we struck 3.7 billion quarter-dollars, a 145 percent increase over 1998 quarter production. At fiscal year-end our annual rate of production reached five billion quarters; we plan to produce at a rate of 7.7 billion by December 1999. Here's another important point behind that performance: in the past, our circulating coinage operations merely responded to coin demand; today, we are creating public demand for and interest in U.S. coinage. American taxpayers benefit from our escalating profits and contributions to the general fund.

Capital Investment

Given the expected popularity of state quarters, we weren't surprised when studies early in the year indicated that production capacity of six billion high-denomination coins would be inadequate. Even so, we were surprised by July estimates that we needed to increase capacity to almost 15 billion high-denomination coins yearly. To accomplish this feat, we accelerated capital investments into this year that had been planned out to 2001. In a $54.8 million addition to capital equipment, we ordered 67 high-speed coining presses, five blanking presses, two annealing furnaces, and a 2,500 pound-per-hour centrifugal burnisher plus ancillary equipment.

In a major renovation at the Philadelphia Mint, we've installed automatic material handling equipment and are plotting additional improvements over the next three years. We started construction on two of Philly's four blanking/annealing lines, planned a fifth, and began partial automation of two coining lines.

Denver completed installing automated material handling for its new blanking/annealing line, started construction of the new west entrance, and completed repairs to the HVAC system. Major projects ahead include roof repair, the maintenance control center, fire safety, and water system replacement.

San Francisco completed emergency roof repairs, renovated its die polishing automation, and automated proof set assembly and packaging. A new emergency generator was installed, and other electrical improvements support these production improvements. We completed the design phase of West Point's building improvements and awarded a contract for the three-year construction project that's replete with facility improvements.

Romulo Panares (left) and Tyrone Whiten insert cartons into the Langen mailer.

Cost Reduction

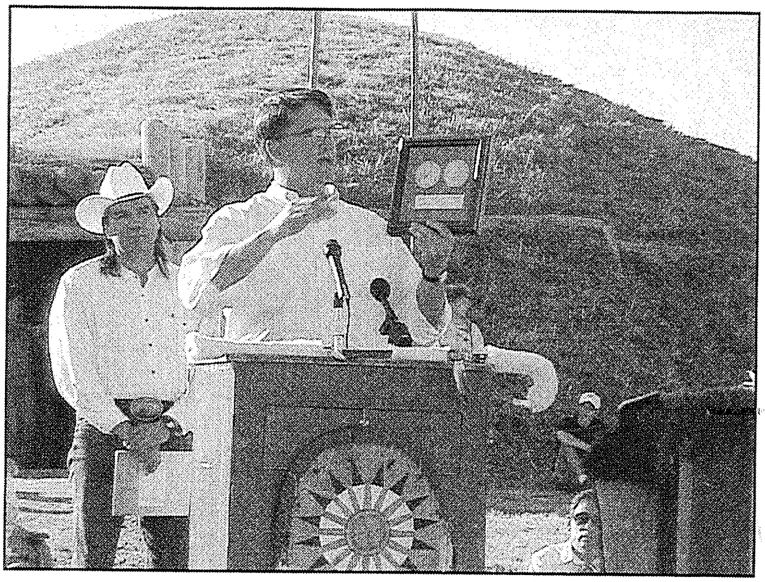
Aggressive cost-reduction continued in 1999 by attacking the largest cost of circulating coin production: 200 million pounds of copper, nickel, and zinc we purchase each year. Since receiving our procurement waiver in 1996 we've studied private sector practices for buying metals in quantity, and in September we began to use industry practices to manage metals procurement to minimize price volatility and risk. A committee of senior Mint managers over-

Production Totals FY 1999

Lincoln Cent	
Denver:	5,789,200,000
Philadelphia:	5,149,355,000
Jefferson Nickel	
Denver:	930,960,000
Phildelphia:	1,141,680,000
Roosevelt Dime	
Denver:	1,431,500,000
Philadelphia:	1,822,000,000
Washington Quarter	
Denver:	
Eagle*	229,600,000
Delaware	401,424,000
Pennsylvania	358,332,000
New Jersey	299,028,000
Georgia	488,744,000
Connecticut	16,600,000
Philadelphia:	
Eagle*	311,268,000
Delaware	373,400,000
Pennsylvania	349,000,000
New Jersey	363,200,000
Georgia	451,188,000
Connecticut	28,000,000
Kennedy Half-Dollar	
None Produced in FY99	
Anthony Dollar	
Philadelphia:	13,720,000
Totals:	
Denver:	9,945,388,000
Philadelphia:	10,002,811,000

FY99 TOTAL: 19,948,199,000

***Calendar year 1998**



Director Diehl displays the Peace Medals that he will present to Tex Hall (behind), chair of the Three Affiliated Tribes.

sees the program. Significant savings are expected to result from this endeavor.

Aggressive energy and water conservation are reducing our costs and environmental impact and making us energy-efficient. Energy savings performance contracts at Philadelphia will save almost $200,000 yearly through path-breaking provisions like convincing private sector suppliers to restructure rate bases, provide incentives, and invest in capital equipment. For example, TRIGEN, the steam facility serving the Philadelphia Mint installed—at no cost to us—a backpressure steam turbine generator that directs steam pressure to an electric generator instead of letting it dissipate. Co-generation's fuel efficiency approaches 85 percent versus 35 percent for a typical utility plant.

Dollar Coins

A robust economy and increasing consumer use drained Susan B. Anthony inventories, so we found ourselves minting SBA dollars in 1999 even though we launch a new dollar coin in 2000. Minting 1999 SBAs was insurance for vending machine operators and transit authorities as well as a delight to collectors.

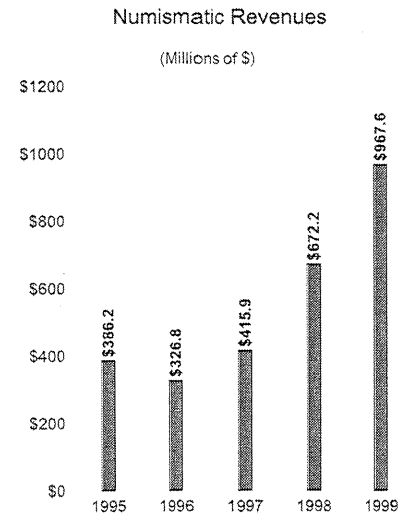
At year-end we finalized the alloy for the Sacagawea dollar coin—or as we call it, the Golden Dollar—after almost two years of experimentation and coordination with business stakeholders. We'll produce more than 100 million Golden Dollars for release in February, when our consumer awareness and business education campaign ramps up. We're readying a national print and TV consumer campaign, and our business-to-business outreach team is finalizing materials, interactive displays, and schedules of appearances. We've met repeatedly with banking and retail organizations and tested public perception of the coin.

Awards and Recognition

While posting these operating achievements and others, our circulating operations earned a Federal Energy Management Award from the Federal Energy Management Program for efficiencies and cost reductions at the Philadelphia Mint. We are the first civilian federal facility to sign an energy savings performance contract with a private sector firm.

Numismatic Business Unit

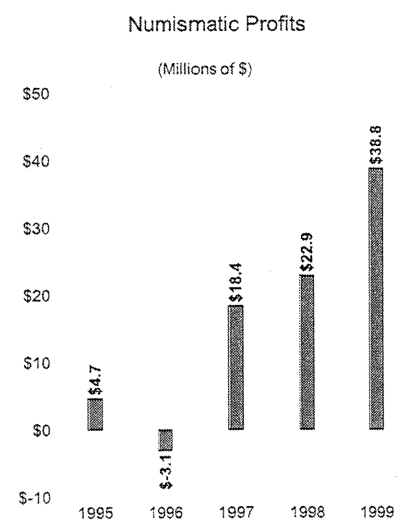
Sales of numismatic, commemorative, and bullion coins and products rocketed to $967 million, a 44 percent increase over last year, and net income rose 69 percent to $38.8 million. With 1999's performance, our Numismatic Business Unit's sales have increased 26 percent and profits 69 percent annually during the past five years. The year was wallpapered by gangbuster numbers in every product line, bonus results from a popular Q50 program, unstoppable bullion sales, soaring Internet sales, lucrative new products and partnerships, and a $26 million catalog business.



Q50 and Recurring Products

The 50 State Quarter™ Program catapulted numismatic revenues from sales of specialty items and long-standing core products reinvigorated by featuring Q50 coinage. We literally bagged a winner with bags of 100 and 1,000 quarters honoring Delaware, New Jersey, Pennsylvania, and Georgia (Connecticut appeared after fiscal year-end). Collectors could specify quarters from Denver or Philadelphia and did so eagerly: we sold out every option for all four quarters within days.

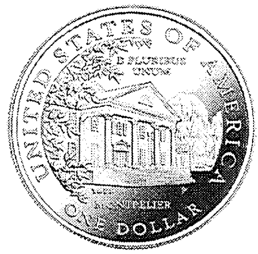
By fiscal year-end we'd sold about 81 percent of another Q50 phenomenon, the five-coin set containing proof versions of 1999's five quarters. Q50 also occasioned one of our most popular cross-over products, First-Day Coin Covers containing Denver and Philadelphia quarters from the first day each coin entered production plus a postage stamp canceled on their debut day.



This year's proof and uncirculated sets enjoyed a Q50 infusion, too. Proof sets for 1999 contained nine coins, not the usual five, and the uncirculated set featured 18 coins instead of 10. Unit sales remained even with last year's pace at 1.5 million proof sets and 800,000 uncirculated sets, but revenues increased to $33.4 million and $13.2 million, respectively, because we charged more for the higher number of coins.

The year's delightful numismatic surprise—1999 Susan B. Anthony dollars—debuted in our *Holiday Collection Catalog*, and collectors bid a rousing farewell to the final dollar coin of this century. Economic demand prompted us to strike 13.7 million SBAs for circulation, so we brought out single proof coins, two-coin uncirculated SBA sets, and bags of 25 and 1,000 coins to accompany the circulating SBA. We'd not minted numismatic versions of SBAs since 1981.

Uncirculated
80,340



Proof
200,127

Commemorative Programs

This year's three commemorative programs exceeded projections and again furnished a gratifying endorsement of earlier initiatives with Congress to reform commemorative coin programs. We expect all three coin programs to close with profits.

Launched in December 1998, the Dolley Madison silver dollar had sold 280,000 coins and posted sales of $8.9 million by September 30. A stunning obverse by Tiffany and Co. contributed to the popularity of this first U.S. coin to honor a First Lady. It is our best-selling silver dollar since 1995.

Our only gold commemorative for 1999, the George Washington $5 launched in May 1999 had sold 55,000 coins and produced revenues of $10.1 million by September 30. Its 1931 Laura Gardin Fraser design had tremendous significance for numismatists. It is our best-selling gold coin since 1996.

The Yellowstone National Park silver dollar launched in June also did well, selling 149,000 coins and bringing in revenues of $5 million by fiscal year-end.

Uncirculated
19,382

Proof
35,656

Eagle Proof Program

Our American Eagle proof program was a mixed nest of successes and disappointments. Gold Eagle sales of $30.3 million on 54,600 ounces represented a 17 percent increase over 1998. We attribute performance to the distinctive 1999 year-date and are anticipating sellouts of all four denominations of individual gold proof coins by year-end.

Silver Eagles outpaced last year. By September 30 we had sold 538,000 ounces, a 26 percent increase over 1998, and are projecting a sellout of the program's 550,000 maximum mintage. Revenues reached $12.7 million, 29 percent higher than the prior year. Turn of the millennium no doubt contributed to sales of a 1999 coin, but Q50 and our soaring Internet business brought us 25,000 first-time customers in 1999, and shoppers becoming acquainted with our products often find historic, beautiful, affordable proof silver Eagles appealing.

Uncirculated
36,876

Platinum Eagle sales slid to $13.9 million, a decline of 34 percent from last year, on sales of 19,000 ounces, about 32 percent lower than 1998. We'd hoped to sustain sales by changing the proof coin's obverse each year for five years in our *Vistas of Liberty*™ series. Although disappointing for us, lackluster sales may bode well for future secondary market prices among collectors.

Proof
111,629

Eagle Bullion

Bullion Eagle revenues rocketed 51 percent to $806.7 million for a third extraordinary year. With 1999 sales of 10.9 million ounces, each American Eagle bullion coin—gold, silver, and platinum—now dominates its global market. Silver Eagles have long been the world leader with an 80 percent market share, and platinum Eagles, number one from the day they appeared, command an 80 percent share. In the past five years, gold bullion Eagles have risen from a 25 percent share of the market to 60 percent today.

Mounting sales and market share are big news in our bullion business, but so is our progress reducing costs and increasing output at our West Point Mint. Since 1996-7, a vigorous labor-management partnership has cut production costs, increased output of gold Eagles 334 percent and platinum Eagles 34 percent, and reduced reject rates by nearly 100 percent for some coin denominations. Simply by reducing reject rates, the West Point Mint has saved approximately $400,000. We've long indicated profit margins on bullion investment coins are small and will remain so. Therefore we continue to boost profitability by pursuing costs and efficiencies to stabilize margins.

The sales kiosk at Washington's Union Station averages one-half million dollars worth of sales each year. It is staffed by (from left to right): Valentine DaDamio, John Roberts, Charles Kraus and Bill Trotti. Not pictured: Elease Champion.

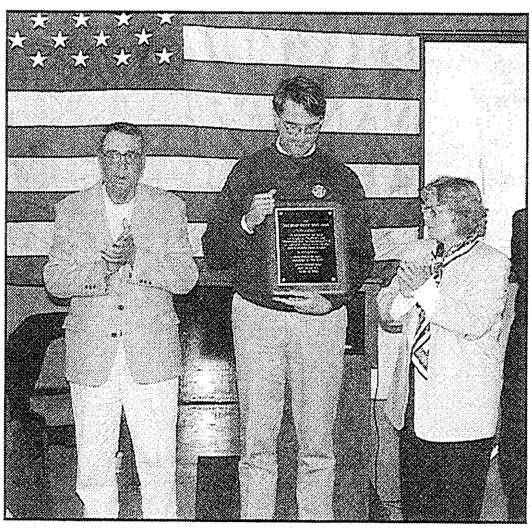
Comprehensive Marketing Organization

Last year's reorganization consolidated responsibility for coin production and sales in our Numismatic Business Unit. A strategic business unit structure is more efficient and comprehensible to private sector firms and is an advantage in seeking joint ventures. In 1999 we landed several trail-breaking private and public sector partnerships. Most Americans have seen Kermit the Frog in national media as "croaksman" for our Q50 program. Our multi-year agreement with Jim Hensen and Co. is one of many during 1999 that are bringing greater profits and brand awareness. Another partnership breaking ground, *Hallmark Collections Catalog* and 5,000 Hallmark Gold Crown® stores coast-to-coast are selling holiday and gift products fashioned from 50 State Quarters™. We and the National Archives created the Coin and Chronicles Collection, an innovative product extension offering reproductions of historic documents related to a commemorative coin—for example, 1999's Washington commemorative is joined by outstanding replicas of Washington's army commission, his letter appointing the first Mint director, and similar papers from our nation's vaults.

Turning numismatics into a results-driven manufacturing-marketing enterprise is one achievement of bringing private sector thinking to the Mint, and our *Holiday Collection Catalog* is one of its recurring successes. Within weeks of mailing, the 1999 catalog reported four days exceeding $1 million in sales of old favorites like proof Eagles, new classics like holiday coin ornaments, modern traditionals like watches and jewelry, and, of course, sure-thing sellouts like coin & die sets.

Also, we're using innovative marketing partnerships to broaden awareness of coinage and to attract youngsters to collecting. This fall the first of several full-page advertisements tied to the Q50 program appeared in *World Magazine*, National Geographic Society's publication for pre-teens. During 2000, we'll sponsor "state pages" in *World*, presenting facts about U.S. states along with games, questions, and an essay contest. The winners' schools will be visited by our World Bus, a coinage classroom on wheels that we're sending on a coast-to-coast information/education tour. And don't be surprised when the U.S. Mint pops up at breakfast, beginning in January. We've signed an agreement with General Mills to place 2000-dated Lincoln cents in 10 million boxes of Cheerios. Every two-thousandth box will contain a Golden Dollar, and one lucky box in each 4,400 has a certificate for 100 dollar coins. The promotion will earn the Golden Dollar up to 100 million advertising/informational impressions among the public before the coin's launch in February—and at no cost to the Mint.

The U.S. Mint Web Catalog at **www.usmint.gov/catalog** topped our sales successes this year. We launched secure on-line shopping in April, and on October 18 our web catalog fetched $2 million in on-line sales in a single day. By late 1999, Internet sales reached $9 million per month, placing the Mint among the nation's top 25 e-tailers. Besides offering faster service, an on-line order costs $5 less to process than toll-free telephone orders. In 1999 we shared those savings with customers by providing free delivery for all on-line purchases. We estimate Internet sales have brought us 51,000 new customers.



West Point was recognized with a Director's Award for their record production of American Eagle coins. It also received a Hammer Award from Vice President Gore for cutting production costs. From left to right: AFGE Local Union #3740 President Nick Corea, Director Diehl, and Acting Superintendent Ellen McCullom.

Awards and Recognition

At West Point, operational improvements that improve profitability and margins earned us another Hammer Award from Vice President Gore—although our real reward is in being able to meet customers' astonishing increases in demand for Eagles. We've regarded the platinum Eagle as a beautiful coin ever since we introduced it, and it was named Most Popular Coin in the 1999 Coin of the Year competition sponsored by *World Coin News*. In addition, the Direct Marketing Association of Washington awarded us a Bronze MAXI for our 1998 platinum proof direct mail campaign.

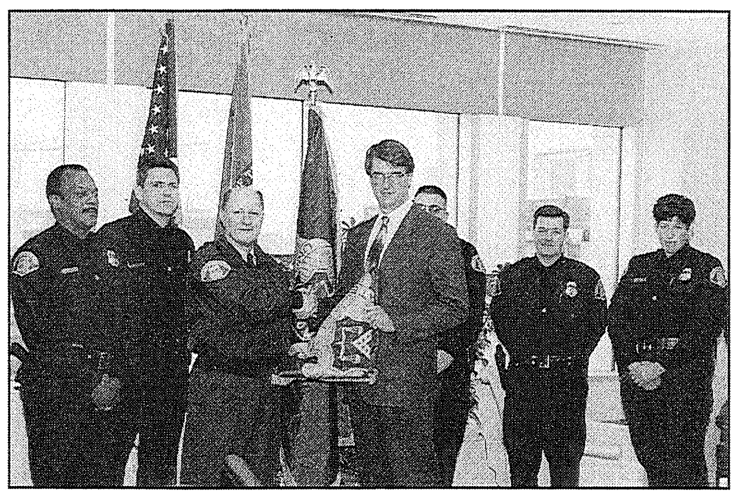
Our Customer Service Center in Lanham, MD, earned a Hammer Award and a Maryland Quality Award for advancements in almost every aspect of its operations, particularly speed and comprehensiveness in serving customers. That includes customers entering via our web site. GovExec.com, a service of *Government Executive Magazine*, honored us as one of 16 "Best Feds on the Web" for the technological know-how, business savvy, and customer service evidenced in our web pages.

Protection Business Unit

The Mint Police continue to shoulder the increased protection responsibilities Congress has bestowed while guarding $74 billion in gold and silver, the $1.6 billion in coinage we produced in 1999, the $967 million of numismatic merchandise we shipped, 2,500 Mint employees, and 500,000 visitors.

The people who made Ft. Knox a metaphor for safekeeping continued to expand their numbers, equipment, and training in anticipating threats to our people and operations. Today, our Protection Business Unit has 300 officers and staff in San Francisco, Denver, Ft. Knox, the District of Columbia, Philadelphia, and West Point, and it employs a growing quantity of sophisticated assets for surveillance, detection, and response. In particular, we are working with the Space and Naval Warfare Systems Center and its subcontractors to install physical security systems in our new world headquarters building, which we began to occupy after the close of fiscal 1999. A five-year security improvement plan to be completed in fiscal 2000 will furnish greater protection for visitors and employees at all facilities.

During the year, 72 officers attended the 10-week Police Officers Basic Academy at the Federal Law Enforcement Training Center, and 100 supervisory officers attended the two-week advanced course. At each Mint facility we've initiated five weeks of field training for newly assigned officers, who must complete basic academy training before being hired. In addition, officers attended numerous law enforcement training centers around the country to acquire or refresh professional skills. Also, we created and implemented a supervisor and management development program to prepare frontline security supervisors and middle-managers for career advancement in our organization.

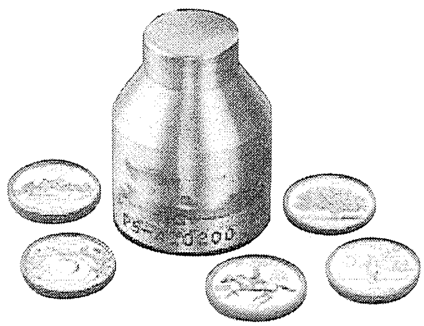


Chief William Daddio presents Director Diehl with a Mint Police flag. Also pictured (left to right): Larry Brumfield, Tony Kuklinski, Marc Kingsley, William Coffey, and Kim Batte.

At Denver, Philadelphia, and Washington we've initiated a bike patrol pilot project and trained a participating officer at each facility. At year-end, the Mint Police went international: we joined the International Criminal Police Organization (INTERPOL) to advance strategic plan objectives of improving intelligence gathering. The 177 nations who belong to the renowned French-based organization are linked through each country's national central bureau.

Awards and Recognition

The Mint Police earned a Treasury Secretary's Award for protecting bullion assets at Ft. Knox and elsewhere without a single dollar in losses. This special recognition also cited the force's role in raising money through sales of last year's coin supporting the National Law Enforcement Officers Memorial.



Corporate Administration

In the first quarter of fiscal 1999 we brought our Mintwide COnsolidated INformation System (COINS) on-line, and data consolidation begun in 1998 continues into FY 2000, as file server upgrades support higher demand for data storage and retrieval. The first Enterprise Resource Planning system (ERP) in the federal sector, COINS integrates 15 modules in manufacturing, finance, marketing, and customer service data to assure accurate, timely information for strategic and operational decisions. Automated data processing equipment and software upgrades will maintain state-of-the-art technology and meet growing communications requirements. Through COINS we're meeting requirements of the Chief Financial Officers (CFO) Act, Government Performance and Results Act, and Government Management Reform Act, and with COINS we enter a new century as a more technologically advanced, information-empowered organization.

COINS replaced 14 critical and 14 non-critical information systems that were unready for Year 2000 (Y2K) operation or presented potential deficiencies. These 28 systems with deficiencies that could have impeded essential operations have been replaced or repaired, tested, validated, and placed in operation. All facilities have upgraded telecommunications, replacing equipment with Y2K deficiencies. Our Y2K consultant has completed validation and verification testing at all locations. We've assessed manufacturing, environmental, safety, and security systems Mintwide and found no items of concern. Interfaces with Treasury's Financial Management Service and Mellon Bank are functional and integrated into our information environment. Exhaustive questionnaires and visits to domestic and international suppliers have assured us they can deliver required materials after January 1, 2000.

Financial Management

Greater competence in managing and reporting financial data has been *the* trademark of the Mint's organizational progress, and it was so again this year, as we earned a sixth consecutive clean opinion from our independent auditors. However, the most sweeping indication of our informational excellence in financial management is one that only we see—but which we are eager to tell everyone about. Three years ago, assembling and verifying financial data was so cumbersome, time-consuming, and labor-intensive that it was a triumph for us to close the books within 70 days after the end of each fiscal quarter. COINS has so streamlined financial reporting that we now close our books within 10 days of the end of each month—and post the result on a shared technology available to all managers across the Mint.

Payroll Processing Improvements

The Treasury Department is upgrading human resources and payroll functions through the PeopleSoft Human Resources Management System and asked us to pilot the project because COINS is based on PeopleSoft and because we've led a variety of reinvention initiatives. We'll outsource payroll services to the Department of Veterans Affairs because present provider systems can't efficiently provide personnel information for analysis and reporting. Through this initiative we'll redesign our human resources function, integrating it into our ERP system for timely information to management, trend analysis reports, and accurate processing of employees and management requests. We'll be able to explore initiatives in pay and flexibility not currently available and step closer to paperless operation.

ADR

An Alternate Dispute Resolution (ADR) project at Denver and Philadelphia cut our EEO filings by 38 percent and set new paradigms for dispute resolution in the federal government. Mint ADR is fast-track mediation in the workplace and is successful because participants forego sidetracks and backtracks. Of 88 ADR cases, only three went to arbitration, and the number alleging discrimination fell dramatically. The new program does what a grievance process should do, and we're implementing it Mintwide.

Awards and Recognition

The Mint and American Federation of Government Employees earned a *third* Sturdivant Partnership Award in five years. The award is the highest the federal government presents for labor-management relations. Denver and Philadelphia had earned the award previously, but this year's award recognized Mintwide labor-management relations, particularly our precedent-setting sixth National Partnership Agreement. We reached this national contract, first in the federal government negotiated under Partnership, in four months, not the year or longer it routinely takes. The team trained in interest-based bargaining with Cornell University and jointly set priorities, goals, and means to accomplish them.

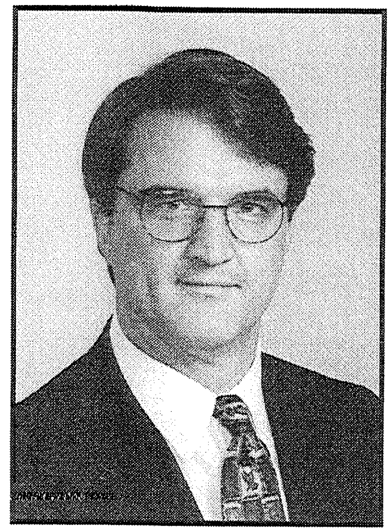
The Sixth National Agreement negotiated between the Mint and American Federation of Government Employees was recognized with a Sturdivant National Partnership Award. The negotiating team (left to right): Bill Beckham; Greg Wikberg, President, National Mint Council; Don Thompson; Mohamed Elmesewedy; Lou Garcia; Mary Garner; Director Diehl; Janice LaChance, National Partnership Council Chair; Jay Weinstein; and George Hunter.

Toward year-end our COINS project received a Government Technology Leadership Award for "original uses of technology that improve functioning of important public enterprises." One of the federal sector's highest acknowledgments for technological advancement, the award is jointly presented by the Federal Technology Service of the General Services Administration and *Government Executive Magazine*. We're proud that the best in the business recognize our COINS team's years of effort.

The Public Service Excellence Competition by the Public Employees Roundtable cited our Office of Materials Management and Contracts for reducing cost of buying metals to produce circulating coins and for streamlining processes for private sector firms bidding on our metals contracts.

Looking Forward

Our Circulating Business Unit has never been better prepared to meet the mission the Founding Fathers entrusted to us even though the challenge grows more formidable as economic growth continues, as Q50 enjoys resounding favor, and as the Golden Dollar arrives. Our Numismatic Business Unit is on course with product innovations, business partnerships, production re-engineering, market strategies, and growing profitability. Inauguration of Q50 begins a 10-year revenue stream from products that have been eagerly greeted by numismatists and the public. Numismatic editions of the Golden Dollar will bring additional numismatic sales and profits next year. Joint ventures in retail and catalog sales will expand availability and brand awareness of our products nationwide. Besides meeting demand, our pressing task will be to master technological challenges we've set for ourselves. We continue to install and refine better customer information, marketing management, and sales-production systems. The transition has occasionally been rocky, and we appreciate our customers' patience.



Our story has been and will be one of movement from strength to strength. You who've followed our progress now see its accumulation of effects. By representing our customers' interests before Congress and seeking authority to operate more efficiently, we became able to offer products welcome in public *and* numismatic markets and to manage ourselves as a business. We turned our ability to create successful new products into higher revenues, as we turned expanded managerial authority into lower costs and streamlined operations. Higher revenues enabled more investment in employees, equipment, and customer service, greater administrative and manufacturing productivity, wider customer outreach, and careers in which employees add value. When rewarded employees produced a more desired product at lower cost and sold more to more customers, profits took off. From here, the sky's the limit—and we're going to put even that notion to the test.

Philip N. Diehl

Philip N. Diehl
Director
September 30, 1999

Management Discussion and Analysis

In fiscal 1999 every production, sales, and profit record fell beneath the onslaught of the 50 State Quarter™ program's popularity with numismatists and the public. But what's equally significant, we achieved record-shattering operating performance while producing some of our greatest managerial and administrative accomplishments. Those accomplishments include:

- Implementing and operating a full year under our COINS network, the federal government's first integrated, agency-wide enterprise resource planning system
- Receiving our sixth consecutive unqualified audit opinion
- Resolving the last material weakness reportable under the Federal Managers Financial Integrity Act
- Completing efforts to make 28 crucial information systems Y2K compliant

However, several aspects of performance slipped as we stretched human and capital resources to meet 1999's production, sales, and information management challenges. Although that might be reasonable, perhaps even inevitable, given the extraordinary demands of achieving a 51.9 percent increase in revenue and a 28.2 percent increase in coin output, we are determined to restore those measures to satisfactory levels. Enhancements we've made in manufacturing capacity plus our integrated accounting and management information systems assure we will have the production and information capabilities to support strategic objectives.

Financial Statement Analysis

At September 30, 1999 and 1998, the Mint reported the following financial statement line items in millions:

	FY1999	FY1998	$ Change	% Change
Total Assets	$ 642.3	$ 599.3	$ 43.0	7.2%
Total Liabilities	$ 195.5	$ 186.2	$ 9.3	5.0%
Total Revenues	$2,417.0	$1,590.8	$826.2	51.9%
Total Costs and Expenses	$1,342.8	$ 973.8	$369.0	37.9%

Revenue grew at a phenomenal rate again in FY1999: 51.9 percent higher than FY1998, an increase of $826.2 million. Two-thirds of the increase — $533 million — was generated from the Circulating Business Unit, (Circulating Business Unit revenue increased from $923 million in FY1998 to $1,456 million in FY1999) which experienced ever-increasing demand for circulating coins and an enthusiastic public reception of the Q50 program. The economy continues to grow and expand, which in turn is fueling the demand for circulating coinage. In addition, the Q50 program has proven to be very popular with collectors who have stashed away billions of these quarters. In FY1999, the Numismatic Business Unit brought in $294 million in revenue over FY1998. As in FY1998, sales of gold and silver bullion are the big story in FY1999. Bullion sales were up 50.9 percent over FY1998, an increase of $272.1 million. Bullion revenue increased from $534.7 million in FY1998 to $806.8 million in FY1999. FY1999 non-bullion revenue is also up, topping FY1998 by 16.5 percent or $21.8 million. Non-bullion revenue increased from $132.4 million in FY1998 to $154.2 million in FY1999. Non-bullion sales are being driven by the demand for all things Q50: proof, recurring and jewelry.

In comparison to the phenomenal revenue growth, costs and expenses for FY1999 were held to a 37.9 percent increase over FY1998, an increase of only $369 million. The Circulating Business Unit increased expenses by a mere $90.9 million above FY1998 — a 27.6 percent increase. Circulating Business Unit costs and expenses increased from $329.7 million in FY1998 to $420.6 million in FY1999. FY1999 costs and expenses for the Numismatic Business Unit were in line with their revenue increase, climbing above FY1998 by 43.2 percent or $278.1 million. Numismatic Business Unit costs and expenses increased from $644.1 million in FY1998 to $922.2 million in FY1999. Because gold and silver bullion were the main drivers of the revenue increase, and because bullion is a global commodity facing tough competition, the Numismatic Business Unit has priced it very close to its production cost. The uncirculated bullion program's contribution margin in FY1999 was a slim 1.6 percent, based on Bullion Fund profit before corporate general and administrative expenses.

High revenue and low expense growth translate to spectacular profits. The Mint increased its contribution to the Department of the Treasury's general fund by an incredible 81 percent, for a total of more than one billion dollars. These monies will be used to reduce the amount of interest that must be paid on the nation's debt. The Mint has truly met its mission in FY1999.

Commemorative Coin Program Results

The table below shows results of commemorative coin programs active during FY1999, as reported to Congress. Public Law 104-208, "Omnibus Consolidated Appropriations Act for Fiscal Year 1997," requires the Mint to withhold surcharge payments to commemorative coin program beneficiaries until the Mint's investment in program, marketing, and administrative activities have been recovered. The law also requires that beneficiary organizations demonstrate they have raised equal or greater amounts of revenue from private sources. This legislation has helped reform the commemorative coin program by allowing the Mint to partner more effectively with the beneficiary organizations. In this arrangement, risks and benefits are shared by both organizations.

Financial Summary
From Program Inception through September 30, 1999
(Amounts in 000)

	Law Enforcement	Robert Kennedy	Black Patriots	Dolley Madison	George Washington	Yellowstone
Revenue	$5,068	$8,355	$3,960	$8,936	$10,144	$4,738
Cost of Goods Sold	$1,810	$2,537	$1,482	$2,666	$4,203	$1,422
Selling, General, and Admin. Expenses	$1,564	$2,372	$1,434	$2,232	$1,912	$1,467
Net Profit Before Surcharges	$1,694	$3,446	$1,044	$4,038	$4,029	$1,849
Surcharges on Revenues	$1,390	$2,054	$1,123	$2,803	$1,926	$1,485
Estimated Program Close-out Costs	$52	$146	$141	$81	$79	$208
Estimated Program Profit/(Loss)	$252	$1,246	$(220)	$1,154	$2,024	$156

Source: Quarterly Commemorative Coin Program Reports

Performance Measures

While core missions change little from year to year, the Mint continues to refine performance objectives and appropriate performance outcome measures that better report the results of its business and activities. The Strategic Plan presents nine goals relating to the Mint's three mission areas and four enabling goals. Within each goal, multiple objectives and strategies are identified to achieve the goal. Finally, specific quantitative performance measures are provided to gauge the Mint's success in achieving the goal. Within the context of this report, the Mint is presenting representative performance measures identified for each mission area goal.

Data sources for our performance measures include third party surveys and financial information, as well as internal Mint financial data. Performance measures are reviewed periodically for relevance to the Mint's changing environment.

Circulating Coinage

Goal: Produce coins and maintain inventories at sufficient levels to meet Federal Reserve Bank (FRB) requirement.

Measure: Frequency of time meeting a minimum inventory level.

	Plan	Actual
FY1998	100%	81.8%
FY1999	100%	42.3%

Each year, the Mint's goal is to achieve and maintain inventory levels within prescribed maximum and minimum levels 100 percent of the time. Estimations of these levels are based upon expected FRB demand, state of the economy, seasonal spending patterns, and savings trends. However, forecast models must be used to estimate demand into the future, and economic reality may not always mirror those projections. Therefore, it is natural that the Mint will occasionally experience short-term shortages or surpluses in inventory levels.

The launch of the Q50 program and the overwhelming enthusiasm for State Quarters challenged the Mint's procurement, production, and distribution capabilities during FY1999. The Mint anticipated a sharp increase in demand. However, initial customer interest in the Q50 program that exceeded expectations, coupled with unexpected demand for all denominations of coins are the primary reasons the Mint did not meet its minimum inventory levels for a large part of FY1999. As a result, the Mint began accelerating its capital improvement program to deploy more and higher-speed manufacturing equipment and technology.

As the Mint further deploys this new technology and as economic forecasting models accounting for Q50 demand evolve, we are confident that the results reported in this measure will continue to improve.

Goal: By 2003, reduce the average unit cost of circulating coinage by 15 percent including metal costs. The baseline year is FY1998.

Measure: Average cost per 1,000 units of circulating clad coinage including metals.

	Plan	Actual
FY1998	—	\$26.69
FY1999	\$33.84	\$31.27

The Mint produced circulating clad coinage for less cost than planned. Several factors contributed to this success. First, the Mint was able to leverage efficient procurement practices with favorable market conditions to achieve lower metal costs. Second, the proliferation of demand for the 50 States quarters allowed the Mint to spread fixed costs over a larger base, thus lowering the overall cost per coin.

Goal: By 2003, reduce the average unit cost of circulating coinage by 15 percent including metal costs. The baseline year is FY1998.

Measure: Average cost per 1,000 units of circulating pennies including metals.

	Plan	Actual
FY1998	—	\$8.84
FY1999	\$7.69	\$8.35

Since the cost of coin production can also vary by denomination and mix of pennies to clad coins, the Mint measures the cost of pennies separately. Pennies and clad coinage are usually produced on different machines with different blanking support processes.

The Mint did not achieve the same economies of scale on pennies as were recognized on clad coin production. Although the Mint exceeded anticipated costs on penny production, we are confident that we are still on target for reaching our five-year goal.

Numismatic/Bullion Products

Goal: Match the best in business in the delivery of products and customer service.

Measures: Percentage of numismatic product orders shipped within the Mint's published turnaround time standards.

	Plan	Actual
FY1998	—	93%
FY1999	98%	79%

The Mint's target is to ship 98 percent of product orders within the published time standards. These standards are four weeks for commemorative programs, three weeks for recurring programs, and one business day for expedited delivery request.

The Mint did not meet the goal of 98 percent, primarily due to the effects of the installation phase of our new Mail-Order and Catalog System (MACS) computer system in early FY1999. Performance has improved with training, experience, refinement of procedures, and policy adjustments. The Mint is beginning to realize both real efficiency gains and improved service to our customers with great promise over the long term.

In addition to the order fulfillment measure above, the Mint has identified eight aspects of product delivery which interface directly with our customers. In each instance, the Mint has established a benchmark against which to gauge its operations and identify improvement opportunities. The Mint's performance against these goals is shown in this table:

	FY1998 Actual	**FY1999 Plan**	**FY1999 Actual**
Calls returned within 1 working day	100%	100%	98%
Refunds processed within 14 working days	73%	71%	88%
Replacements processed within 7 working days	86%	80%	29%
Responses to written inquiries mailed within 3 business days	90%	86%	81%
Make available bullion coins within 6 calendar days from the order date	100%	100%	100%
Customer Service phone calls answered by live agent within 17.5 seconds	N/A	90%	43%
Provide a 95 percent average quality rate on all customer service calls	N/A	100%	100%
Respond to all customer correspondence within three business days	N/A	90%	60%

N/A = Measure not reported in FY 1998

The Mint was able to achieve its goal in three of the eight measures. The current results for the other five measures highlight the need for improving customer interaction through better policies and procedures. The implementation of a new ordering system, MACS, impacted the results of the standard for processing replacements within seven working days. Original procedures were not adequate to meet the standard, and corrective actions were taken as soon as this was apparent. As a result, the Mint was able to greatly improve performance toward this goal during the course of the year as seen in the following table:

	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Replacements processed within seven working days	15%	16%	48%	36%

The Mint in FY1999 was able to use the Internet as a medium to market its products and take customer orders. Household limits were set on certain products to assure that they would be available to the broader coin-collecting public. These two factors greatly taxed the Mint's ability to answer phone calls within 17.5 seconds and to respond to customer correspondence within three days. The following table shows how the volume of customer service interaction increased during FY1999, straining the customer service staff toward year-end:

	1st Half	2nd Half	Total
Phone Calls Received	94,711	185,163	279,874
Percent	*34%*	*66%*	*100%*
Number of written correspondences	6,122	17,011	23,133
Percent	*26%*	*74%*	*100%*

The current results highlight the need for the Mint to further evolve policy and procedure to better serve our customers. As we gain experience operating within both new and traditional technologies and policies, the Mint fully expects to match the best in business in the quality of service to our customers.

Goal: Increase the contribution margin of the numismatic/bullion operation by aggressively pursuing new customers, new market channels and new product lines.

Measures: Numismatic contribution margin for bullion and Numismatic contribution margin for non-bullion.

	FY1998 Actual	FY1999 Plan	FY1999 Actual
Numismatic Contribution Margin for:			
Bullion	1%	1%	1.7%
Non-Bullion	16.7%	15%	21.5%

The Mint defines contribution margin as sales less all expenses other than Headquarters General and Administrative expense as a percentage of bullion and non-bullion sales.

Different contribution targets have been established for bullion and numismatic products for several reasons. First, bullion and numismatic products serve fundamentally different purposes. Bullion products are commodities. As such, the Mint minimizes the extra finishing, polishing, and packaging that is performed on commemoratives, recurring coin sets, and American Eagle gold, silver, and platinum proof coins to make the commodities competitive with other precious metal options available in the global market place. Second, bullion products have higher base costs than most numismatic products.

In FY1999, the Mint met its targets for bullion and non-bullion contribution margins. FY1999 was banner year for bullion products, with demand for portable precious metal reaching very high levels. Improvements in productivity, a favorable product mix, and the high demand levels helped the Mint realize its contribution margin from gold, silver and platinum bullion. Since these products are commodities, there is a marginal premium on each sale charged by the Mint. This premium varies by the size of the bullion product, e.g. one-tenth ounce coins receive a higher premium per ounce than one ounce coins. The Mint sold a higher percentage of the one-tenth ounce coins in FY1999, and therefore received a larger total premium than if the same amount of ounces had been sold in higher denomination coins.

Non-bullion contribution margin met its FY1999 non-bullion contribution margin goal due in large part to increased demand for numismatic products. The Q50 State Quarters program is a large driver of this increased demand. Increased manufacturing efficiency, and economies of scale related to programs enhanced by the Q50 State Quarter Program was a large factor in the Mint performing well against this measure.

Protection of Assets

Goal: Provide a level of security commensurate with changing threats.

Measure: Dollar losses per billion dollars of Reserve Value.

	Plan	Actual
FY1998	—	0
FY 1999	0	0

The old adage, "No news is good news," certainly applies to the Mint's protection mission. The Mint secures more than $74 billion of the American people's gold, silver, and platinum. The Mint also produces and ships $1.4 billion in circulating coinage every year and processes more than $960 million in customer payments for numismatic and bullion products. Mint security forces protect these assets while safeguarding 2,500 Mint employees against potential threats at six facilities.

The fact that the Mint's security force performs this mission each year without publicity or headlines is a tribute to the quiet efficiency of its operations. In FY1999, the Mint met its goal of having zero (0) dollar losses per billion dollars of reserve value.

Other Issues

Y2K Compliance

The Mint's critical information systems were replaced prior to FY1999 with the Y2K compliant COINS system. All other systems with the potential of a Y2K impact have been replaced.

Innovations in Travel Processing

Recognizing the importance of delivering prompt travel reimbursements to its employees, the Mint succeeded in dramatically re-engineering how it processes and pays travel vouchers. A team effort punctuated with creative thinking made the difference. The new initiative resulted in reducing the number of days required to process a voucher from nearly 30 days to five or fewer. In the first three months of FY1999 alone, 90 percent of all travel reimbursements were deposited in recipients' bank accounts in five days or less; 97 percent were deposited within ten days.

Prompt Payment Act

The initial transition to a new resource enterprise and planning system (COINS) caused some unfortunate temporary disruptions to the Mint's invoice processing and payments process. As a result, the Mint did not meet the Treasury Department's goal of paying no more than two percent of all invoices late. In FY1999, the Mint processed 91.3 percent of its 26,477 payments ($629 million) on time. While the annual performance did not meet the two percent standard, the Mint achieved significant improvement during each quarter of the year. With our initial transition to COINS now complete, we look forward to once again meeting and exceeding the two percent standard in FY2000, as we had done in FY1998 and previous years.

FMFIA/FFMIA Compliance

ANNUAL ASSURANCE STATEMENT

FISCAL YEAR 1999

The United States Mint has evaluated its systems of management control for the fiscal year ending September 30, 1999, in accordance with procedures and standards prescribed by the Office of Management and Budget and the General Accounting Office. For Fiscal Year 1999, the Mint brought its systems into compliance with Section 4 of the FMFIA by implementing the Consolidated Information System (COINS). The Mint also provides reasonable assurance that the objectives of Section 2 of the FMFIA were achieved during FY1999.

The Mint gives assurance that all of the provisions of the Federal Financial Management Improvement Act of 1996 were achieved in FY1999.

John P. Mitchell, Deputy Director
for Philip N. Diehl, Director
United States Mint

The Mint received its sixth consecutive unqualified audit opinion on its FY1999 financial statements. In addition, the Mint resolved long-standing deficiencies in its automated systems by implementing a fully integrated, Mintwide enterprise resource planning system known as COINS (COnsolidated INformation System).

Prior to the implementation of COINS in FY1999, the Mint reported material non-conformances related to the fact that we had multiple unintegrated systems that made accurate and timely reporting a challenge. With COINS, we have resolved that problem by fully integrating our financial, customer order, and manufacturing systems into one system. COINS is based on PeopleSoft Inc.'s commercial enterprise resource planning software and integrates add-on packages for customer orders and storeroom inventory control.

DEPARTMENT OF THE TREASURY — U.S. MINT
STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	September 30, 1999	1998
ASSETS		
Current assets		
Fund balances with Treasury and cash (Note 3)	$183,132	$202,657
Accounts receivable, net (Note 4)	3,699	3,572
Operating inventories, net (Note 5)	248,142	183,884
Advances and prepayments (Note 6)	2,997	3,253
Total current assets	437,970	393,366
Non-current assets		
Property, plant, and equipment, net (Note 7)	168,977	154,608
Other assets (Note 8)	35,396	51,349
Total non-current assets	204,373	205,957
Total assets	**$642,343**	**$599,323**
LIABILITIES AND NET POSITION		
Liabilities:		
Current liabilities		
Accounts payable - Federal (Note 9)	$ 88,974	$ 44,676
Accounts payable - Non-Federal	27,227	47,512
Surcharges payable	6,063	6,324
Unearned revenue	4,207	5,843
Accrued salaries and benefits/unemployment insurance	8,292	6,011
Total current liabilities	134,763	110,366
Non-current liabilities		
Accrued workers' compensation benefits	25,711	24,523
Accrued annual leave	7,454	6,596
Accounts payable - Federal (Note 9)	27,351	44,155
Other liabilities	244	557
Total non-current liabilities	60,760	75,831
Total liabilities	**$195,523**	**$186,197**
NET POSITION		
Fund balance	$446,820	$413,126
Total liabilities and net position	**$642,343**	**$599,323**
CUSTODIAL GOLD AND SILVER RESERVES		
United States' gold and silver reserves (Note 10)	$10,457,846	$10,473,267
Custodial liability to Treasury (Note 10)	$10,457,846	$10,473,267
Net custodial position	—	—

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
U. S. MINT
STATEMENTS OF OPERATIONS & CHANGES IN NET POSITION
(In Thousands)

	Years Ended September 30, 1999	1998
REVENUES		
Circulating coinage revenue	$1,455,314	$923,487
Sales to the public (numismatic sales)	967,256	671,778
Surcharges collected for beneficiary organizations (Note 14)	(6,516)	(4,991)
Other revenue	991	533
Total revenues	**$2,417,045**	**$1,590,807**
COSTS AND EXPENSES		
Cost of goods sold (Note 11)	1,218,935	895,466
Selling, general and administrative expenses (Note 12)	116,181	70,453
Other costs and expenses (Note 13)	7,717	7,903
Total costs and expenses	**$1,342,833**	**$973,822**
FINANCING SOURCES & COSTS NOT ASSIGNED TO PROGRAMS		
Imputed financing (Note 17)	9,879	6,862
Less: Additional employee benefit expenses (Note 17)	(9,879)	(6,862)
Total financing sources & costs not assigned to programs	—	—
Excess of revenues over total costs and expenses and financing sources, before protection cost	1,074,212	616,985
Protection costs	(22,518)	(17,097)
Excess of revenues over total costs and expenses and financing sources	1,051,694	599,888
Net position, beginning of year	413,126	375,238
Transfers to Treasury's General Fund	(1,018,000)	(562,000)
Net position, end of year	**$446,820**	**$413,126**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended September 30, 1999	1998
Cash flows from operating activities:		
Excess of revenues over total costs and expenses and financing sources	$1,051,694	$599,888
Adjustments affecting cash flows:		
Decrease (Increase) in accounts receivable	(127)	619
Decrease (Increase) in other assets	(48,049)	115,837
Increase (Decrease) in accounts payable	7,209	(703)
Increase in other liabilities	2,117	43
Depreciation and amortization	12,628	8,492
Total adjustments	(26,222)	124,288
Net cash provided by operating activities	**$1,025,472**	**$724,176**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(26,997)	(66,872)
Net cash used by investing activities	**(26,997)**	**(66,872)**
Cash flows from financing activities:		
Funds transferred to Treasury	(1,018,000)	(562,000)
Net cash used by financing activities	**($1,018,000)**	**($562,000)**
Net cash provided (used) by operating, investing & financing activities	**($19,525)**	**$95,304**
Fund balances with Treasury and cash at beginning of year	**$202,657**	**$107,353**
Fund balances with Treasury and cash at end of year	**$183,132**	**$202,657**

Department of the Treasury
United States Mint
Notes to the Financial Statements
For Fiscal Year Ended September 30, 1999

(Dollars are in thousands except Fine Troy Ounce information)

Note 1 Reporting Entity

Established in 1792, the Mint is an integral part of the Department of the Treasury. The mission of the Mint is to manufacture coins for general circulation, to manufacture and sell numismatic products for the benefit of the federal government and various beneficiary organizations, and to protect certain federal assets in its custody. Numismatic products include medals, proof coins, uncirculated coins, platinum, gold, and silver bullion coins, and commemorative coins. Custodial assets consist primarily of United States' gold and silver metal reserves. These custodial reserves are reported in the custodial segment of the Statement of Financial Position.

Manufacture of numismatic products is financed principally through sales to the public. Manufacture of circulating coinage is financed through sales of coins at face value to the Federal Reserve System. Activities related to protection of federal custodial assets are funded by revenues of the Mint's Public Enterprise Fund (PEF).

Pursuant to Public Law 104-52, the PEF was established to account for all revenues and expenses related to production and sale of numismatic products and circulating coinage and protection activities. Expenses accounted for in this fund include the cost of metals used in circulating coin production, the cost of non-Treasury metals (platinum, cupro-nickel, and zinc) used in numismatic coin production, fabrication and transportation-in costs for metals used in circulating coinage and numismatic products, and costs of transporting circulating coinage between Mint production facilities and Federal Reserve banks. Other costs/expenses accounted for in this fund include costs related to research and development and purchases of equipment, as well as capital improvements. P.L. 104-52 states that any amount in the PEF that is determined to be in excess of the amount required by the PEF shall be transferred to the Treasury.

Treasury's Bullion Fund (Bullion Fund) is used to account for and to purchase Treasury's gold and silver used in numismatic coin production. The costs of these metals remain in the accounts of the Bullion Fund until products are shipped to customers. The Bullion Fund is subsequently reimbursed by the PEF for the precious metal cost portion of the products sold. United States gold and silver reserves are also accounted for in this fund.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The Mint has historically prepared its external financial statements in accordance with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated as the standards-setting body for federal financial reporting entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that accounting standards published by the FASB may also be in accordance with generally accepted accounting principles for those federal entities, such as the Mint, that have issued such financial statements in the past.

Basis of Accounting
The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. This basis conforms with generally accepted accounting principles. All inter-mint transactions and balances have been eliminated.

Revenues
Circulating Coinage: P.L. 104-52, establishing the PEF, provides for the sale of circulating coinage at face value to the Federal Reserve System. Revenue from circulating coinage is recognized when the product is shipped to the Federal Reserve Banks.

Numismatic Sales: Revenue is recognized when products are shipped to customers. Prices for numismatic products are based on the product cost plus a reasonable profit. Bullion products are priced based on the market price of the precious metals plus a small market premium.

Unearned Revenues: Amounts received from customers for which the numismatic products have not been shipped.

Other Revenues: These are amounts received principally from reimbursable agreements with other agencies.

Fund Balances with Treasury
Except for an imprest fund at each Mint facility, all cash is maintained at the Treasury. The Mint has disbursement authority for the Bullion Fund, but actual disbursements for this fund are recorded in accounts of the Treasury.

Operating Inventories
Inventories of circulating coinage and numismatic products are valued at the lower of cost or market value, with cost being determined by the average cost method. Absent historical cost records to determine acquisition cost of the gold and silver over the decades, the statutory rates of $42.2222 per fine troy ounce (FTO) of gold and $1.292929292 per FTO of silver are used. All work-in-process gold and silver inventories have been included in the Mint's financial statements.

The Defense Logistics Agency (DLA) has loaned the Mint 197,684.6 ounces of platinum to be used as working stock for its platinum programs. In the agreement with DLA, the Mint agrees to use the platinum and replace the amount used. This platinum supply is not carried in the accounts of the Mint; rather, DLA maintains accountability.

Advances and Prepayments
Payments in advance of the receipt of goods and services are recorded as prepaid expenses at the time of prepayment and are expensed when related goods and services are received. Advances to Treasury's Working Capital Fund are the primary types of prepayments and advances.

Property, Plant, and Equipment
Property, plant, and equipment are valued at cost less accumulated depreciation. The Mint's threshold for capitalizing new property, plant, and equipment is $5,000. Depreciation is computed on a straight-line basis over the estimated useful lives of related assets as follows:

ADP Software	1 to 15 years
Machinery and Equipment	1 to 20 years
Structures, Facilities, and Leasehold Improvements	6 to 30 years

Costs and related depreciation of property, plant, and equipment assets used jointly in numismatic and circulating coinage production are allocated to each activity based on usage percentages.

Major alterations and renovations are capitalized over the shorter of a 10-year period or the remaining useful life of the asset and depreciated on the straight-line method, while maintenance and repair costs are charged to expense as incurred.

Surcharges
Legislation authorizing commemorative programs often requires that the PEF remit a portion of the sales proceeds to beneficiary organizations. These amounts are defined as "surcharges." A surcharges payable is established for surcharges received but not yet paid to the beneficiary.

On September 28, 1996, P.L. 104-208, *Omnibus Consolidated Appropriations for Fiscal Year 1997* (the Act), was passed. The Act changed the requirements of paying surcharges for commemorative coin programs. The requirements of the Act make the benefiting organizations full partners in bearing costs, risks, and marketplace realities of selling coins. Benefiting organizations cannot receive surcharge payments unless all operating costs of the coin program are fully recovered. However, the Mint may make interim surcharge payments during a commemorative program if the benefiting organization meets the eligibility criteria in the Act, if the profitability of the program is determinable, and if the Mint is assured it is not at risk of a loss.

Annual, Sick, and Other Leave
Annual leave is accrued when earned and reduced as leave is taken. The balance in the accrued leave account is calculated using current pay rates. Sick leave and other types of non-vested leave are charged to operating costs as they are used.

Accrued Workers Compensation
A liability is recorded for estimated future payments to be made for workers compensation pursuant to the Federal Employees' Compensation Act (FECA). The liability is based on the net present value of estimated future payments. Estimated future payments to be made by the Treasury are calculated by the Department of Labor, which tracks and pays the claims and is subsequently reimbursed by the Treasury. A portion of Treasury's liability is allocated to the Mint based on prior claims payment experience.

Other Liabilities
Other liabilities consist of undeliverable numismatic products and obligations under capital leases. The majority of items under capital lease represent electronic data processing equipment, i.e., the mainframe computer, peripheral hardware and other items.

Displays and Archives
The Mint has a display area at each of its facilities and maintains archives at its headquarters in Washington, D.C. The displays and archives include valuable coins and commemoratives minted domestically and internationally and other artifacts related to minting operations. These items are not included in balances reported in these financial statements. Records are maintained of all coins, commemoratives, and valuable artifacts. Physical inspections are performed annually to assure accountability.

Protection Costs
The Mint is responsible for safeguarding much of the Federal government's precious metals and strategic stockpiles. These costs are borne by the Mint, but are not directly related to the circulating or numismatic coining operations of the Mint. Organizationally, the Protection Strategic Business Unit is a separate line of business from coining operations.

Note 3 Fund Balances with Treasury and Cash

Components of fund balances with Treasury at September 30 are as follows:

	1999	1998
Revolving fund	$183,110	$202,627
Imprest fund	22	30
Total fund balance with Treasury and cash	$183,132	$202,657

At September 30, 1999, and 1998, revolving fund balances included $6.06 million and $6.32 million, respectively, in restricted amounts for possible payment of surcharges to beneficiary organizations. Revolving fund balances also include amounts in budgetary clearing accounts.

Note 4 Accounts Receivable

Components of accounts receivable at September 30 are as follows:

	1999	1998
Accounts receivable, Federal	—	$ 113
Accounts receivable, non-Federal	4,057	3,639
Less allowance for doubtful accounts	(358)	(180)
Total accounts receivable	$3,699	$3,572

Accounts receivable consists primarily of amounts due from bulk purchases of gold and bullion coins near year-end. These amounts were subsequently paid in early FY2000.

Beginning in FY1997, an allowance for uncollectible customer accounts receivable was established for all accounts that are delinquent more than 90 days. However, the Mint will continue collection action as specified by the Debt Collection Improvement Act of 1996.

Note 5 Operating Inventories

The components of operating inventories at September 30 are summarized below:

	1999	1998
Numismatic Programs:		
Operating components	$120,996	$64,442
Supplies	7,246	5,677
Allowance for program closeout	—	(657)
Sub-Total Numismatic	$128,242	$69,462
Circulating Coinage Program:		
Operating components	$114,992	$105,588
Supplies	4,908	8,834
Sub-Total Circulating Coinage	$119,900	$114,422
Total Operating Inventories	$248,142	$183,884

Operating components of inventories include direct materials, direct labor, and overhead for work-in-process and finished goods inventories. Direct materials consist of metals, fabrication costs, and transportation-in costs (costs related to the shipment of metals from fabricators and between Mint facilities). Direct labor consists of direct factory labor costs, and overhead consists of indirect labor costs, indirect materials (including dies), utilities, and depreciation. Costs of precious metals (without fabrication and transportation) in the operating components at September 30 are as follows:

	1999	1998
Gold	$ 69,176	$32,483
Silver	10,766	8,245
Platinum	11,000	5,259
Total cost of precious metals in operating component	$90,942	$45,987

Note 6 Advances and Prepayments

The components of advances and prepayments at September 30 are summarized below:

	1999	1998
Federal:		
Prepaid postage services	$ 199	$ —
Advances to others	2,687	2,380
	$2,886	$2,380
Non-Federal:		
Other prepayments	—	687
Advances to others	111	186
	$ 111	$ 873
Total advances and prepayments	$2,997	$3,253

Advances to Others-Federal is the amount the Mint pays into the Treasury Working Capital Fund. The Treasury Working Capital Fund is a revolving fund that operates as an accounting entity. In these funds, the assets are capitalized and all income is in the form of offsetting collections derived from each of the Treasury bureaus and available to finance the fund's operations. Advances to Others-Non-Federal consists primarily of advances to employees such as travel.

Note 7 Property, Plant, and Equipment

Components of property, plant, and equipment at September 30 are as follows:

	1999	1998
Land	$ 2,529	$ 2,529
Structure, facilities, and leasehold improvements	103,139	88,025
New computer system	37,000	37,000
ADP software	2,234	602
Machinery and equipment	141,266	131,015
Assets under capital lease	692	692
	$286,860	$259,863
Less accumulated depreciation and amortization	(117,883)	(105,255)
	$168,977	$154,608

Mint facilities used to manufacture circulating coinage and numismatic products are owned by the Mint and located in San Francisco, California, Philadelphia, Pennsylvania, Denver, Colorado, and West Point, New York. In addition, the Mint owns the land and buildings at the Fort Knox Bullion Depository in Kentucky.

Depreciation and amortization expense charged to operations for FY1999 and FY1998 were $13.82 million and $9.54 million, respectively. The majority of items under capital lease are various pieces of electronic data processing equipment, i.e., the mainframe computer, peripheral hardware, and other items.

Note 8 Other Assets

Other assets consist primarily of $27.35 million and $44.16 million due from the Defense Logistics Agency (DLA) at September 30, 1999, and 1998, respectively for silver that DLA owes to the Treasury.

Also included in other assets are progress payments (prepayments) for equipment and building improvements under construction. The Mint has initiated a Mint-wide security upgrade, which requires progress payments be made to the construction contractors. In FY1999 and FY1998, such payments totaled $7.85 million and $7.01 million, respectively.

Note 9 Accounts Payable – Federal

Although Treasury gold and silver are recorded in the accounts of the Bullion Fund (Note 1), the operating portion of gold and silver, also referred to as work-in-process and finished goods, is reflected in the Mint's financial statements. Reimbursements for the cost of precious metal used in numismatic operations are made to the Bullion Fund when the resulting products are shipped to customers. Accordingly, an offsetting Accounts Payable-Federal exists at the end of the fiscal year that includes work-in-process gold and silver metal costs that will subsequently be reimbursed to the Bullion Fund when the resulting products are sold and shipped.

The following is a summary of Accounts Payable-Federal at September 30, 1999, and 1998:

	1999	1998
Current:		
Metal used as working stock inventory	$79,943	$40,728
Funds to be transferred to others	9,031	3,948
	$88,974	$44,676
Non-Current:		
Metal at DLA for future working stock	$27,351	$44,155

The funds to be transferred to others resulted from the sale of metal used in Mint products and other amounts owed to federal entities, primarily the Treasury and DLA.

Note 10 Custodial Gold and Silver Reserves

The Mint is responsible for safeguarding much of the nation's precious metals and strategic stockpiles and is the custodian of a significant portion of the United States' gold and silver reserves. These resources are reported in the custodial segment of the Statement of Financial Position at the lower of cost or market value. Absent historical cost records to determine the acquisition cost of the gold and silver over the decades, statutory rates of $42.2222 per FTO of gold and $1.292929292 per FTO of silver are used to value the entire custodial reserves held by the Mint. An offsetting custodial liability is also reported for these assets. For purposes of comparison, the market value of these assets is disclosed in this note.

Amounts and values of custodial gold and silver in the custody of the Mint at September 30 are as follows:

	1999	**1998**
Gold:		
Inventories (FTO)*	247,078,556	247,477,783
Market Value ($ per FTO)	$ 299.00	$ 293.85
Market Value ($ in thousands)	$73,876,488	$72,721,347
Statutory Value ($ in thousands)	$10,432,200	$10,449,056
Silver		
Inventories (FTO)*	19,835,748	18,725,238
Market Value ($ per FTO)	$ 5.575	$ 5.39
Market Value ($ in thousands)	$ 110,584	$ 100,929
Statutory Value ($ in thousands)	$ 25,646	$ 24,211
Total *Market* Value of Custodial Gold and Silver Reserves ($ in thousands)	$73,987,073	$72,822,276
Total *Statutory* Value of Custodial Gold and Silver Reserves ($ in thousands)	$10,457,846	$10,473,267

*Custodial gold and silver FTOs are transferred to the PEF for numismatic operations. The PEF replenishes the custodial reserves with purchases of newly mined gold. In addition, the DLA transfers silver to the custodial reserves.

Note 11 Cost of Goods Sold

Following are components of cost of goods sold FY1999 and FY1998:

	1999	1998
Finished goods, beginning inventory	$ 12,303	$ 19,602
Cost of goods manufactured:		
Work-in-process, beginning inventory	6,202	2,305
Direct Labor	17,731	20,700
Manufacturing overhead	1,276,805	871,364
Work-in-process, ending inventory	(58,441)	(6,202)
Total cost of goods manufactured	$1,242,297	$888,167
Cost of goods available for sale	$1,254,600	$907,769
Finished goods, ending inventory	(35,665)	(12,303)
Cost of goods sold	$1,218,935	$895,466

Included in manufacturing overhead are all the cost of metal, fabrication, and transportation. Precious metal values are $801,272 and $554,796 for FY1999 and FY1998, respectively.

Note 12 Selling, General, and Administrative Expenses

Following are components of selling, general, and administrative expenses for FY1999 and FY1998:

	1999	1998
Selling Expenses:		
Marketing (including Customer Service Center rent)	$ 25,793	$18,294
Advertising (including postage to mail brochures)	4,592	7,890
Advertising for coin awareness	7,668	—
Transportation to Federal Reserve Banks (FRB)	4,914	3,276
	$ 42,967	$29,460
General and Administrative:		
Other salaries and benefits	$ 25,098	$18,400
Computer services	10,594	7,209
Transportation, communication, and training	4,725	5,108
Supplies	3,637	2,172
Depreciation	4,737	872
Rent	5,153	3,126
Other administrative services	19,270	4,106
	$ 73,214	$40,993
Total Selling, General, and Administrative	$116,181	$70,453

Note 13 Other Costs and Expenses

These consist primarily of returns of mutilated or uncurrent coins to the Mint. The Mint reimburses the entity that sent in the coins for the face value of these coins if the coins are individually identifiable. If the coins have melted (as in a fire), the Mint reimburses the entity an amount based on the metal content of the melted mass.

Note 14 Surcharges Collected

Following are components of surcharges collected by product and beneficiary organization for FY1999 and FY1998. The surcharge recipients of programs subject to the provisions of P.L. 104-208 must meet certain requirements before the Mint can make surcharge payments. These requirements include raising matching funds and providing audited financial statements.

Commemorative Program	*Beneficiary Organization*	*1999*	*1998*	*Sales Period*
Programs prior to 1997				
1996 Olympic Games	Atlanta Comm. for Olympic Games	—	148	95/96/97/98
Programs subject to P.L. 104-208				
U.S. Botanic Gardens	National Fund for the U.S. Botanic Gardens	—	110	97
Jackie Robinson	Jackie Robinson Foundation	—	398	97/98
Franklin D. Roosevelt	FDR Memorial Commission	—	75	97/98
National Law Enforcement Officers Memorial	Natl. Law Enforcement Meml. Maintenance Fund	72	1,310	97/98
Black Patriots	Black Revolutionary War Patriots Memorial	82	1,041	97/98
Robert F. Kennedy	RFK Memorial	146	1,909	98/99
Dolley Madison	National Trust for Historic Preservation	2,805	—	99
George Washington	Mount Vernon Ladies Association	1,926	—	99
Yellowstone	National Park Foundation/ Yellowstone National Park	1,485	—	99
Total Surcharges Collected		**$6,516**	**$4,991**	

Note 15 Lease Commitments

The Mint leases space in three buildings in Washington, D.C., two in San Francisco, and one in Denver. One of the Washington buildings, the warehouse space in San Francisco, and the space in Denver are leased from the General Services Administration (GSA), which charges a fee that approximates the commercial rental rates for similar properties. The remaining buildings are leased from private sources.

Total rental expense was $5.68 million and $3.52 million in FY1999 and 1998, respectively.

Operating Leases
Schedule of Minimum Future Rental Payments
(in thousands)

Year Ended 9/30:	
2000	$3,023
2001	3,063
2002	5,642
2003	4,964
2004	5,052
After 2004	$33,413
Total minimum future rental payments	$55,157

In December 1997, the Mint entered into a long-term commitment (20 years) for commercial office space located at 801 Ninth Street, N.W., Washington, D.C. The Mint occupied this space in early FY2000. The present value of the future minimum rental payments through 2019 is $86.8 million, using a discount rate of 6.2 percent. This represents the total future outlays for this lease.

Note 16 Contingencies

The Mint is subject to legal proceedings and claims which arise in the ordinary course of its business. Judgments, if any, resulting from pending litigation against the Mint generally would be satisfied from the Department of Treasury Judgment Fund. In the opinion of management, the ultimate resolution of these actions will not materially affect the Mint's financial position or the results of its operations.

Note 17 Retirement Plans and Other Postemployment Costs (Imputed Financing)

At the end of FY1999, approximately 24 percent of the Mint's employees participate in the Civil Service Retirement System (CSRS), to which the Mint contributes seven percent of pay. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to P.L. 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to join FERS or remain in CSRS.

A primary feature of FERS is that it offers a savings plan to which the Mint automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. FERS employees are allowed a maximum annual contribution of 10 percent of salary. Employees participating in FERS are covered by the Federal Insurance Contribution Act (FICA), for which the Mint contributes a matching amount to the Social Security Administration.

Although the Mint contributes a portion for pension benefits and makes the necessary payroll deductions, it is not responsible for administering either CSRS or FERS. Therefore, the Mint does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to Mint employees. Responsibility for reporting such amounts is the responsibility of the Office of Personnel Management (OPM). The Mint is recognizing its share of the cost of providing a pension benefit to eligible employees with an offset classified as imputed financing. OPM has provided the Mint with certain cost factors that estimate the true cost of providing the pension benefit to current employees. The cost factors of 24.2 percent of basic pay for CSRS-covered employees and 11.5 percent of basic pay for FERS-covered employees were in use for both FY1999 and FY1998.

The following table shows the amounts that the PEF contributed to the retirement plans and Social Security in FY1999 and FY1998, respectively.

	1999	1998
Civil Service Retirement System	$ 2,593	$ 2,613
Federal Employees Retirement System		
(Retirement & Thrift Savings Plan)	8,292	7,138
Social Security System	6,080	4,639
	$16,965	$14,390

The Mint is also recognizing its share of the future cost of post-retirement health benefits and life insurance for employees while they are still working with an offset classified as imputed financing. OPM continues to report the overall liability of the federal government and make direct recipient payments. OPM has also provided certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The cost factor relating to health benefits is $2,731 and $2,529 per employee enrolled in the Federal Employees Health Benefits Program in FY1999 and 1998, respectively. The cost factor relating to life insurance is two-one hundredths percent (.02%) of basic pay for employees enrolled in the Federal Employees Group Life Insurance Program for FY1999 and 1998.

The amount of employees' benefit expense incurred by the Mint for FY1999 and 1998 is as follows (before the offset for imputed financing):

	1999	1998
Pension Expense	$3,825	$2,576
Health Benefits	6,038	4,272
Life Insurance	16	14
	$9,879	$6,862

Note 18 Related Parties

The Mint is subject to management control by the Secretary of the Treasury.

The PEF does not reimburse the Bullion Fund for gold and silver used for numismatic production until finished goods are shipped to customers. Hence, the cost of capital associated with carrying these inventories is borne by the Treasury. As an offsetting matter, the Mint does not receive interest on its cash account at Treasury.

The Mint is required by legislation to obtain silver to be used in minting of commemoratives from the DLA stockpiles. The Mint reimburses the DLA at the market price for silver, less the statutory rate of $1.292929292 per FTO. The $1.292929292 per FTO is paid by the Mint to the Treasury.

During FY1999 and FY1998, payments were made to the following government entities:

	1999	**1998**
Government Printing Office	$ 182	$ 200
U.S. Postal Service	9,631	4,200
General Services Administration	4,785	3,700
	$14,598	$8,100

The Mint shipped approximately $1,455 million in coins to the Federal Reserve Board in FY1999. This amount represents a 55 percent increase over FY1998 shipments that approximated $923 million.

Numismatic orders, checks, and credit card orders are processed by a commercial bank. Fees associated with these services are absorbed by the Treasury and are not reflected in the Mint's financial statements.

Supplemental Financial Information

In this Supplemental Section of the Report, we provide additional information related to the financial conditions of the U.S. Mint. Each statement provides its own additional insight.

Supplemental Statements of Net Cost

This statement is modeled primarily on OMB Bulletin 97-01, using proprietary accounting data. Normally, negative numbers are viewed unfavorably; however, in this statement a negative number indicates profit.

This statement is very similar to the Statements of Operations and Changes in Net Position in the main body of the Annual Report, but does provide some additional information. The Mint's three programs are reported separately in the Supplemental Statements of Net Cost; whereas they are combined in the Statements of Operations and Changes in Net Position.

Finally, there is a $9.879 million dollar difference between the two statements. This is the exclusion of imputed financing revenue from the Supplemental Statements of Net Cost as instructed by OMB Bulletin 97-01.

OMB Bulletin 97-01 requires two additional supplemental statements — the Statement of Financing and the Statement of Budgetary Resources. These statements are designed for organizations that operate under an annual appropriation from Congress. The Mint is a full revolving fund and receives no appropriated funds. In addition, the Mint is a manufacturing operation with operating inventories. The OMB statements do not allow for consideration of operating inventories. Therefore, we do not present these statements in this report as they may mislead the reader.

DEPARTMENT OF THE TREASURY — U.S. MINT
SUPPLEMENTAL STATEMENTS OF NET COST
FOR YEAR ENDED SEPTEMBER 30, 1999

(In Thousands)

	Years Ended September 30, 1999	1998
COSTS:		
NUMISMATIC PRODUCTION AND SALES		
Intragovernmental		
Cost of Goods Sold	$52,895	$37,550
Selling, General, and Administrative	17,554	848
Other costs and expenses	988	892
Total Intragovernmental	71,437	39,290
With the Public		
Cost of Goods Sold	832,551	574,788
Selling, General, and Administrative	19,084	30,896
Other costs and expenses	128	—
Total With the Public	851,763	605,684
Less earned revenues	961,031	667,053
Net program costs (profit)	**($37,831)**	**($22,079)**
CIRCULATING PRODUCTION AND SALES		
Intragovernmental		
Cost of Goods Sold	$7,215	$4,259
Selling, General, and Administrative	7,613	5,885
Other costs and expenses	8,891	5,970
Total Intragovernmental	23,719	16,114
With the Public		
Cost of Goods Sold	326,274	278,870
Selling, General, and Administrative	71,930	32,754
Other costs and expenses	7,589	7,903
Total With the Public	405,793	319,527
Less earned revenues	1,455,811	923,488
Net program costs (profit)	**($1,026,299)**	**($587,847)**
PROTECTION OF ASSETS	**$22,315**	**$16,900**
COSTS ASSIGNED TO OTHER AGENCIES (not assigned to program):		
Other post-employment benefit costs	—	$70
Less funding sources	—	70
Net program costs (profit)	—	—
NET COST (PROFIT) OF OPERATIONS	**($1,041,815)**	**($593,026)**

UK &W Urbach Kahn & Werlin PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

UNITED STATES DEPARTMENT OF THE TREASURY
Office of Inspector General

We have audited the accompanying statements of financial position of the United States Mint (Mint), a bureau of the Department of the Treasury, as of September 30, 1999 and 1998, and the related statements of operations and changes in net position, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Mint's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the United States' gold and silver reserves (Custodial Gold and Silver Reserves) for which the Mint serves as custodian. These reserves were audited by the United States Department of the Treasury, Office of Inspector General (OIG) whose report has been furnished to us, and our opinion, insofar as it relates to these reserves, is based solely on the report to the OIG.

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the OIG provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the OIG, the financial statements referred to above, present fairly, in all material respects, the financial position of the Mint as of September 30, 1999 and 1998, the results of its operations, the changes in its net position, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental statements of net cost is presented for purposes of additional analysis and is not a required part of these financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 21, 1999 on our consideration of the Mint's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations.

Urbach Kahn & Werlin PC

Washington, DC
December 21, 1999

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

UNITED STATES DEPARTMENT OF THE TREASURY
Office of Inspector General

We have audited the financial statements of the United States Mint (Mint), a bureau of the Department of the Treasury, as of and for the year ended September 30, 1999, and have issued our report thereon dated December 21, 1999. The United States' gold and silver reserves, for which the Mint serves as custodian, were audited by the OIG. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the Mint's internal control over financial reporting by obtaining an understanding of the Mint's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Mint's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted the following matter involving the internal control and its operation that we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness.

SYSTEM IMPROVEMENTS ARE NEEDED

The Mint's new enterprise resource planning tool, the Consolidated Information System (COINS), was fully brought on-line during October and November 1998. COINS is a consolidated system that consists of the following four independent systems: PeopleSoft, the Mail Ordering and Catalog System (MACS), the Computerized Maintenance Management System (MAXIMO), and the Manufacturing Customer Database (MARCUS). COINS replaced the Mint's old financial management system which consisted of numerous non-integrated mainframe, manual and PC-based systems. We identified the following operating and control deficiencies in COINS that, if not resolved, could adversely impact the Mint's ability to produce and report accurate and timely financial data:

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

- ***MACS and the Bullion Ledger are not fully integrated into COINS:*** MACS is the system used by the Mint to process orders for its numismatic products sold to the public. Upon completion of production, finished goods produced by the Mint's numismatic program are transferred from PeopleSoft to MACS. The unit cost of numismatic items transferred is entered manually into MACS because PeopleSoft and MACS are not integrated systems. Unit costs in MACS are not consistently updated and there were differences between the unit cost of items transferred between the systems.

  In addition, the Mint still maintains manual records to account for all bullion transactions in its numismatic program. The manual nature of the bullion ledger creates inefficiencies, weakens controls over processing bullion transactions, and may allow errors to occur and not be detected timely. We recommend the Mint integrate MACS and the Bullion Ledger into PeopleSoft and COINS to ensure inventories are properly recorded, reconciled and reported.

- ***PeopleSoft Does Not Properly Account For Job Variances:*** PeopleSoft does not properly post variances for completed production jobs transferred from work-in-process to finished goods. When production jobs were completed and transferred to finished goods, PeopleSoft did not properly create journal entries to post variance transactions. The Mint was aware of this deficiency and properly notified PeopleSoft to correct this software problem. In addition, the Mint appropriately recorded $50.5 million in net adjustments to properly report work-in-process inventories at year-end. We recommend the Mint ensure PeopleSoft corrects this problem and perform an analysis of its standard cost variance transactions to ensure they are properly recorded.

- ***The Mint's IRM Security Section lacked leadership and resources:*** The IRM Security Section lacked leadership and resources during FY99 based on established staffing requirements. It is critical to maintain sufficient information systems security staff, with appropriate training and experience to design, implement and enforce agency policy and procedures for system security. We recommend the Mint ensure its IRM Security Section is properly staffed and trained to ensure compliance with Federal system security requirements.

- ***The Mint's Disaster Recovery Plan (DRP) needs improvement:*** The Mint's disaster recovery plan is missing essential information that is required by Federal systems requirements. Specifically, the Mint's DRP does not:

  - Address the specific processing needs that are required for the Mint to resume normal business activities.

  - Cover back-up operations for critical applications and data.

  - Identify the critical data files needed to resume processing in the event the DRP is used.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL, CONTINUED**

- Identify procedures for the rotation of backups.

- Encompass all Mint locations that perform processing functions material to financial reporting.

We recommend the Mint revise its DRP to ensure compliance with Federal system requirements.

In addition, with respect to internal controls related to performance measures reported in the "Management Discussion and Analysis," we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08, as amended. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion on such controls.

We also noted other matters involving the internal control over financial reporting which have been reported to the management of the Mint in a separate letter dated December 21, 1999.

This report is intended solely for the information and use of the OIG of the Department of the Treasury, the management of the Mint, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Urbach Kahn & Werlin PC

Washington, DC
December 21, 1999

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

UNITED STATES DEPARTMENT OF THE TREASURY
Office of Inspector General

We have audited the financial statements of the United States Mint (Mint), a bureau of the Department of the Treasury, as of and for the year ended September 30, 1999, and have issued our report thereon dated December 21, 1999. The United States' gold and silver reserves, for which the Mint serves as custodian, were audited by the OIG. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the Mint is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards*, or OMB Bulletin 98-08, as amended.

Under FFMIA, we are required to report whether the Mint's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08, as amended.

The results of our tests disclosed no instances in which the Mint's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information of the OIG of the Department of the Treasury, the management of the Mint, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Urbach Kahn & Werlin PC

Washington, DC
December 21, 1999

Department of the Treasury
United States Mint
Statements of Custodial Gold and Silver Reserves
As of September 30, 1999 and 1998

(In Thousands)

	1999	1998
CUSTODIAL GOLD AND SILVER RESERVES		
United States gold and silver reserves (Note 2)	$10,457,846	$10,473,267
Custodial liability to Treasury (Note 2)	10,457,846	10,473,267
Net gold and silver reserves custodial position	$ 0	$ 0

The accompanying notes are an integral part of these statements.

Department of the Treasury
United States Mint
Notes to the Statements of Custodial Gold and Silver Reserves
As of September 30, 1999 and 1998

At September 30, 1999 and 1998, the market value of gold was $299.00 per FTO and $293.85 per FTO, respectively. Gold inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
1999	247,078,556.034	$10,432,200,209	$73,876,488,254
1998	247,477,782.820	$10,449,056,442	$72,721,346,482

At September 30, 1999 and 1998, the market value of silver was $5.575 per FTO and $5.39 per FTO, respectively. Silver inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
1999	19,835,748.11	$25,646,220	$110,584,296
1998	18,725,238.08	$24,210,409	$100,929,033

The combined gold and silver reserves consisted of the following at September 30:

	Statutory Value	Market Value
1999	$10,457,846,428	$73,987,072,550
1998	$10,473,266,851	$72,822,275,515

Custodial gold and silver FTOs are transferred to the PEF for numismatic operations. The PEF replenishes the custodial reserves with purchases of newly mined gold. In addition, the Defense Logistics Agency transferred silver to the custodial reserves.

Department of the Treasury
United States Mint
Notes to the Statements of Custodial Gold and Silver Reserves
As of September 30, 1999 and 1998

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Mint (U.S. Mint), established in 1792, is an integral part of the Department of the Treasury. The mission of the U.S. Mint is to manufacture coins for general circulation. In addition to manufacturing circulating coins, the U.S. Mint manufactures numismatic products, which include medals, proof coins, uncirculated coins, gold and silver bullion coins, and commemorative coins. These manufacturing operations are reported in the manufacturing segment of the U.S. Mint's consolidated financial statements. The U.S. Mint is also the custodian of a significant portion of the United States' gold and silver reserves, which are presented in the custodial segment of the U.S. Mint's Statements of Financial Position.

The U.S. Mint's custodial activities, including the protection of the United States' gold and silver reserves in its custody, are funded by the U.S. Mint's Public Enterprise Fund (PEF).

B. Basis of Presentation

These custodial statements have been prepared to report the gold and silver reserves custodial position of the U.S. Mint. The books and records of the U.S. Mint have served as the source of the information contained herein. The statements have been prepared in accordance with generally accepted accounting principles and U.S. Mint accounting policies.

These custodial statements include all gold and silver classified by the U.S. Mint as "custodial reserves" as defined in Note 2. These statements do not include gold and silver withdrawn from the "custodial reserves" for use in the operations of the U.S. Mint's PEF. The U.S. Mint's PEF occasionally uses gold and silver from the custodial reserves to support its numismatic operations. The PEF later replenishes the reserves with newly mined gold. These statements do not reflect any United States' gold and silver being used by the U.S. Mint in its operating inventory or any reserve amounts due to be replenished by the PEF, nor do they include gold at Federal Reserve Banks.

Note 2. Custodial Gold and Silver Reserves

Gold and silver are classified as reserves if in bar form. The custodial reserves also include foreign gold coins held by the Treasury for many years.

The gold and silver reserves are reported in these custodial statements at the lower of cost or market value. Absent historical cost records to determine the acquisition cost of the gold and silver over the decades, the reserves are valued at the rates stated in U.S. Code Title 31, Sections 5116 and 5117 (statutory rates) which are $42.2222 per Fine Troy Ounce (FTO) of gold and $1.292929292 per FTO of silver. An offsetting custodial liability is also reported for these assets.

To the Director of the United States Mint:

We have audited the United States Mint's (U.S. Mint) Statements of Custodial Gold and Silver Reserves (custodial statements) as of September 30, 1999 and 1998. This report presents our unqualified opinion on these custodial statements. Our audit disclosed no material weaknesses and no instances of reportable noncompliance with laws and regulations in fiscal year 1999.

Management's Responsibilities

Management is responsible for:

- Preparing the custodial statements in conformity with generally accepted accounting principles.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal control policies and procedures.
- Complying with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the gold and silver reserves.

Scope of Audits

We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and applicable Office of Management and Budget (OMB) guidance. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the custodial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the custodial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall custodial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In planning and conducting our audit of the U.S. Mint's custodial statements for the year ended September 30, 1999, we considered its internal control over financial reporting and compliance with laws and regulations. Specifically, we obtained an understanding of the design of the U.S. Mint's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the custodial statements and not to provide assurance on the internal control over financial reporting and compliance with laws and regulations. Consequently, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the custodial statements are free of material misstatement, we performed tests of the U.S. Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of custodial statement amounts. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Results of Audits

OPINION ON THE CUSTODIAL STATEMENTS

In our opinion, the custodial statements present fairly, in all material respects, the United States' gold and silver reserves in the custody of the U.S. Mint as of September 30, 1999 and 1998, in conformity with generally accepted accounting principles.

INTERNAL CONTROL

Internal control is a process, effected by the U.S. Mint's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the custodial statements for the fiscal year ended September 30, 1999 in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and

- Compliance with applicable laws and regulations - transactions for the fiscal year ended September 30, 1999 are executed in accordance with laws and regulations that could have a direct and material effect on the custodial statements.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control in place on September 30, 1999 would not necessarily disclose all matters in the internal control that might be material weaknesses as defined by OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Material weaknesses in internal control are conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the custodial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses.

Compliance with Laws and Regulations

The results of our tests of compliance in fiscal year 1999 with the laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 98-08, as amended.

This report is intended solely for the information and use of the management of the U.S. Mint, the U.S. Department of the Treasury, OMB, the Congress, and Urbach Kahn & Werlin, PC, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.

William H. Pugh

William H. Pugh
Deputy Assistant Inspector General for Audit (Financial Management)

December 3, 1999

Glossary of Acronyms

ADR	Alternative Dispute Resolution
AFGE	American Federation of Government Employees
CFO	Chief Financial Officer
COINS	COnsolidated INformation System
CSRS	Civil Service Retirement System
DLA	Defense Logistics Agency
EEO	Equal Employment Opportunity
ERP	Enterprise Resource Planning System
ESPC	Energy Saving Performance Contracts
FECA	Federal Employees Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FICA	Federal Insurance Contribution Act
FMFIA	Federal Managers' Financial Integrity Act
FRB	Federal Reserve Banks (refers to series of reserve banks and branches that comprise FRB System)
FTO	Fine Troy Ounce
FY	Fiscal Year
GSA	General Services Administration
HVAC	Heating, Ventilating, Air Conditioning
MACS	Mail-Order and Catalog System
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PEF	Public Enterprise Fund
Q50	50 State Quarter Program
SBA	Susan B. Anthony Dollar Coin
Y2K	Year 2000

United States Mint

Senior Management

Director
Philip N. Diehl

Deputy Director
John P. Mitchell

Circulating Coinage SBU
George Hunter, Acting Associate Director

Numismatic SBU
David Pickens, Associate Director

Protection SBU
William F. Daddio, Chief

Chief Financial Officer
Jay M. Weinstein

Chief Information Officer
Jacqueline Fletcher

Chief Technology Officer
Andrew J. Cosgarea

Denver Mint
Judith Groshek, Acting Superintendent

Philadelphia Mint
Steve Kunderewicz, Acting Superintendent

San Francisco Mint
Mike Alphin, Acting Superintendent

U.S. Bullion Depository — Fort Knox
James M. Curtis, Officer-in-Charge

West Point Mint
Ellen McCullom, Acting Superintendent